

City of Martinsville

FY22 Proposed Budget

May 11, 2021



Introduction

The proposed FY22 budget is a recommended financial plan for the City of Martinsville for the period from July 1, 2021 through June 30, 2022, and is the culmination of a process that began in late 2020.

Developing the budget requires that both revenue and expenditures be projected for an approximate 18 month period and much can happen within that timeframe. The process is challenging and as we've seen in the development of prior budgets, we see many of the same key issues over and over again:

- Budget requests exceeding revenue
- Uncertainty regarding State fiscal policies
- Effective use of fund and reserve balances
- How best to allocate limited resources to cover a wide array of needs
- Balancing adjustments to taxes, rates, and fees to adequately cover expenses with needs and what citizens can afford

Continuing into FY22 are lingering financial issues related to Covid 19, and how those issues impact certain revenue streams. Two additional significant issues are federal funding and reversion.

In March of this year, the United States Congress approved the \$1.9 trillion American Rescue Plan with significant funding earmarked for states and localities. At the time this budget was prepared, no official notification has yet been received as to the amounts that may come to both the City and City Schools, although a number of websites offer projections as to what that funding may be. The timing of receipt of such funds and the conditions attached to usage could have significant impact on the FY22 budget and it is possible budget adjustments may be necessary once that information is known. Even as the impact of stimulus recovery funding is unknown, there is ongoing discussion at the federal level regarding additional funding programs geared toward infrastructure, and other needs.

With reversion still on track for a July 1, 2022 implementation date, FY22 will be the last year for City budgeting for a variety of constitutional functions as well as school funding, all with an approximate \$15 million expenditure impact. It should be noted there will likewise be a revenue impact as state funding the City receives for these operations will be shifted to the County.

As stated in previous years, funding is not unlimited – the City has finite resources and there simply aren't enough funds available to fully fund every budget request, but there is adequate funding to cover most of what everyone needs. Striking that balance year after year is what our budgeting process has been about and through it all, the City has managed to remain fiscally sound.

The annual budget is the City's financial plan and is the opportunity to blend Council's vision for the future with what the citizens of Martinsville want and expect, and ultimately with the allocation of resources to turn that plan into reality. The budget process is a unique opportunity for Council, City staff, and citizens to review and shape the direction City government is headed.

As we move through the FY22 budget process, input is essential as efforts are made to create the best financial plan possible to continue moving the City of Martinsville forward into 2022 and beyond.

Leon Towarnicki
City Manager
May 11, 2021

FY22 Proposed Budget

General Discussion Revenue and Expenses



FY21 Highlights

As discussion begins on the FY22 budget, here's some highlights of what has occurred and continues to occur in FY21

- Telecom/MiNet growth continues with planned expansion of wireless to the home and requests for service.
- Through a Brownfield Assistance Fund grant, cleanup of the American site on Aaron Street has been completed and Landmark has plans to start work on an approximate \$8 to \$10M senior living complex at that site in late summer/early fall.
- Pine Hall Road CDBG application has been resubmitted.
- Waukeshaw Development is proceeding with redevelopment of the Chief Tassel Building in Uptown Martinsville, with closing on the property expected soon.

FY21 Highlights

- An agreement has been executed for redevelopment of the BB & T building Uptown into a mixed-use facility.
- The City is receiving strong interest in reuse of the former medical school building at the corner of Fayette & Moss Streets. Other vacant buildings and properties are also generating interest.
- Work is underway on the 5-Points Housing Project on West Church
- Community policing remains strong and crime rate remains low
- Land Bank facilitates redevelopment of properties
- Abundant local employment opportunities.
- Local transit system continues with strong usage; the Virginia Breeze system is operational.
- Commonwealth Crossing – PressGlass is operational; recent announcement of Crown Holdings project.

FY21 Highlights

- Uptown Partnership established, Exec. Dir. hired
- Martinsville Mustangs continues under new management
- Successful partnership with YMCA for management of City parks & recreation programs continues
- WPBDC – Incubator management continues successfully under C-PEG; incubator remains at or close to capacity
- Strong housing/real estate market
- Successfully administered CARES/Covid relief grant funding for small business grants, utility payment assistance, and broadband.
- Reversion process/discussions moving forward.
- Continued success with a variety of grants

Budget Objectives

Basic Year To Year Budget Objectives Remain Constant

- Maintain core services
- Address critical capital needs
- Expand tax base (commercial, residential, industrial)
- Explore opportunities to consolidate, improve efficiency, generate new revenue
- Protect existing assets
- Consider Council priorities in allocating resources

FY22 Budget Challenges

- Lack of significant revenue growth
- Increasing costs due to inflation, insurance, need to remain competitive with salary & benefits in order to retain/attract employees, mandates, regulatory issues, costs of simply “doing business”, COLA adjustment, filling vacancies.
- Capital needs continue to exceed available funding
- School funding – request vs. ability to allocate
- Increased costs for jail operations, transport & housing
- Uncertainty surrounding Covid relief/federal funding amounts and usage, and budget impact.
- Reduction in ambulance fees
- Personnel additions needed

FY22 Budget Challenges

- Aging infrastructure
- Adherence to policy requirement to maintain fund and asset balances to ensure reserve capacity to handle emergencies - recognizing that fund transfers are inevitable, ensure that reserve balances are preserved.
- Adoption of utility cash reserve and fund balance policies establishes guidelines on ability to transfer funds to ensure the City remains fiscally sound. Water/sewer loan requirements must be followed
- Limited ability to increase rates & fees – need to continue to remain regionally competitive.

Budget Challenges - Capital

- Capital requests submitted by City departments for FY22 budget consideration totals \$3,970,161 with \$2,207,935 requested for utilities and \$1,762,226 requested for general fund/capital reserve.
- Utilities cover capital internally however the Capital Reserve Fund (16 Fund) is consistently underfunded due to primary reliance on available excess Meals Tax funds, after school debt service is covered.

COVID/Federal Funding

- There is considerable discussion at the federal level regarding a variety of stimulus and infrastructure plans that could potentially funnel significant dollars to the state and local levels. Official notification and details have yet to be received regarding the \$1.9 trillion American Rescue Plan approved earlier this year, the local allocation, how that funding may be used, and ultimately how that may impact the City's budget. Staff will address any such issues as the information becomes available.

Revenue –General Comments

What resources are available for the FY22 Budget?

- Traditional sources – taxes, fees, state funding?
- Fund Balance use & required minimum?
- Cash reserve policies & required minimums?
- Utility budgets balance internally through ability to adjust rates; General Fund budget has historically relied on utility transfers or use of fund balance, to balance.
- COVID-19/Federal funding – how much, when available, & what can it be used for?

Revenue GF Sources

General Fund Revenue

FY22 General Fund revenue before transfers is projected to be ***\$29,065,850**. (FY21 is \$28,840,888), from taxes, fees, recovered costs, and state funding, (0.78% increase)

**includes \$90,000 in additional real estate tax revenue resulting from reassessment with the real estate tax rate at the current \$1.0621/\$100, which requires a public hearing, separate from the budget public hearing. A lowered tax rate of \$1.0502/\$100 will generate an estimated not more than 1% increase of real estate tax revenue and does not require a hearing. To “levelize” FY22 real estate tax revenue with FY21, a real estate tax rate of \$1.03975 would have to be adopted, and the GF budget reduced by \$90,000, with FY22 real estate tax revenue to be shown as \$6,110,000.*

Revenue Analysis

Unassigned Fund Balance- GF

- Audited EOY FY20 unassigned FB is \$4,938,739
- FY22 proposed GF budget is \$34,308,365. 10% reserve policy requirement is \$3,430,837.
- Available unassigned FB of \$4,938,739 less FY22 reserve requirement of \$3,430,837, leaves available **GF FB transfer of \$1,507,902 to maintain 10% reserve.**

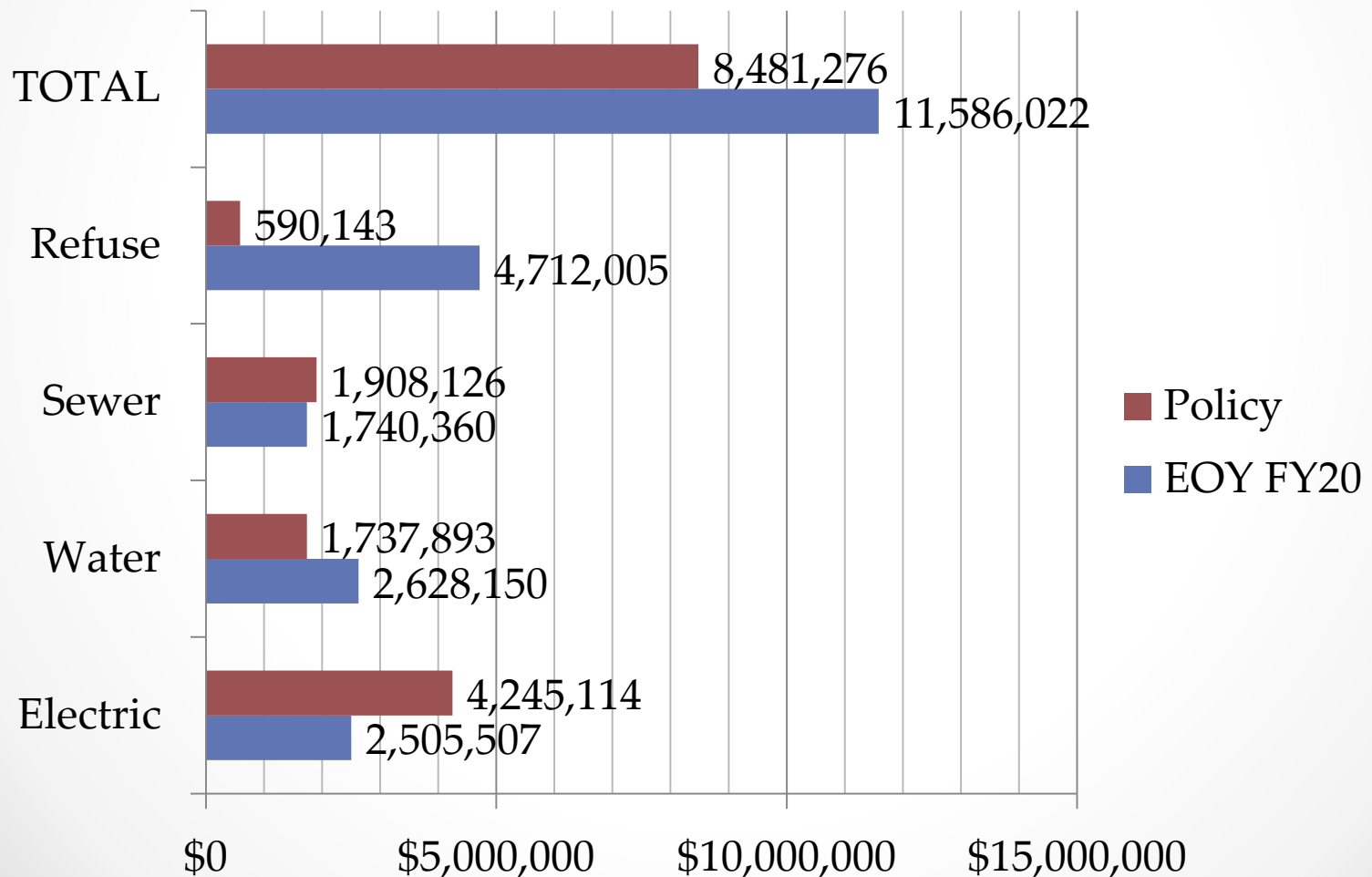
Revenue Analysis

Utilities – Cash Reserve Policies

	<u>EOY19 Audited</u>	<u>EOY20 Audited</u>	Cash Reserve Policy
Electric	\$1,238,533	\$2,505,507	\$4,245,114
Water	\$2,699,239	\$2,628,150	\$1,737,893
Sewer	\$1,911,806	\$1,740,360	\$1,908,126
Refuse	\$5,035,497	\$4,712,005	\$590,143
Total	\$10,855,075	\$11,586,022	\$8,481,276

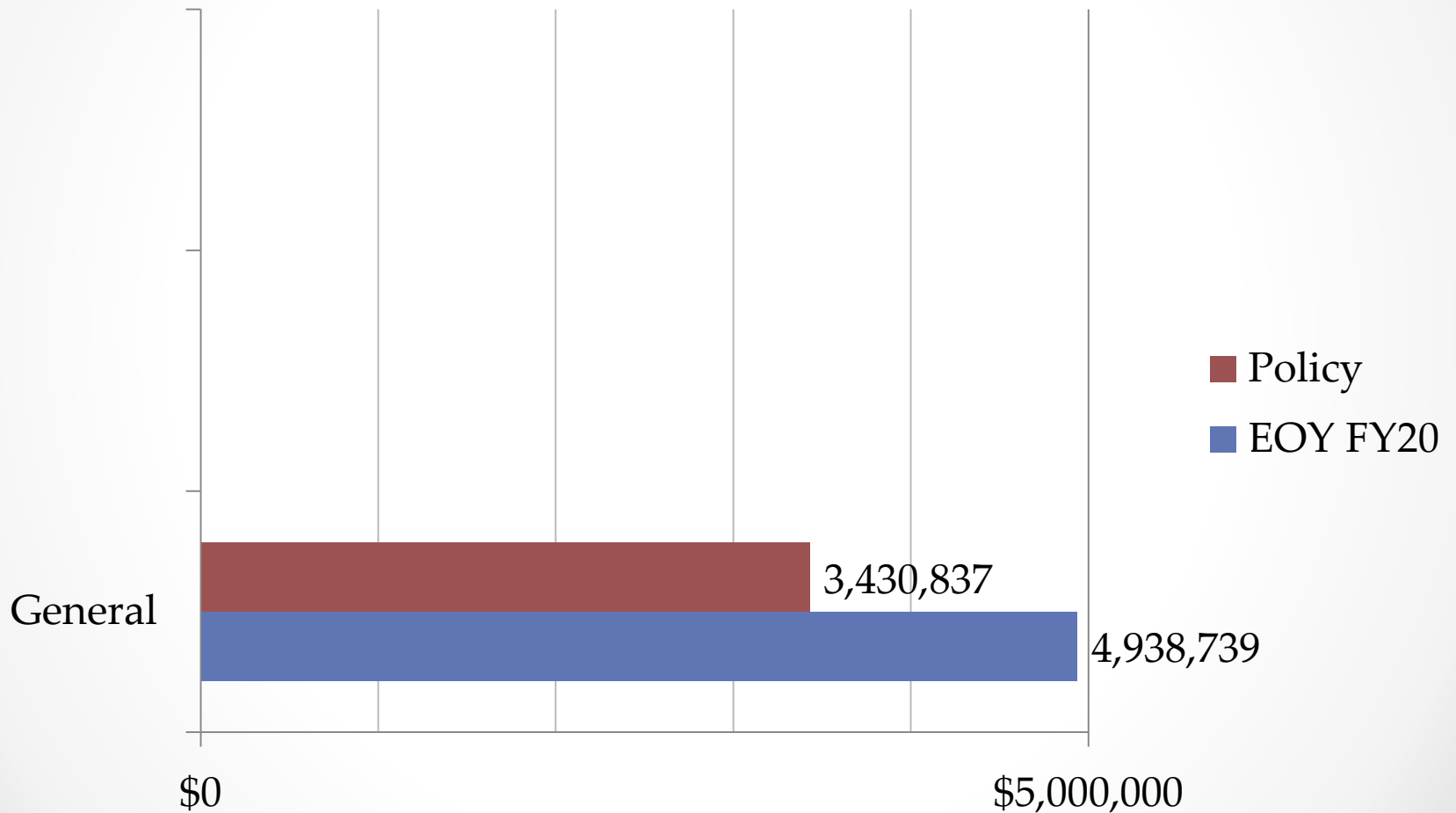
Utilities – Cash Reserves

EOY FY20 vs Current Policy Recommendation



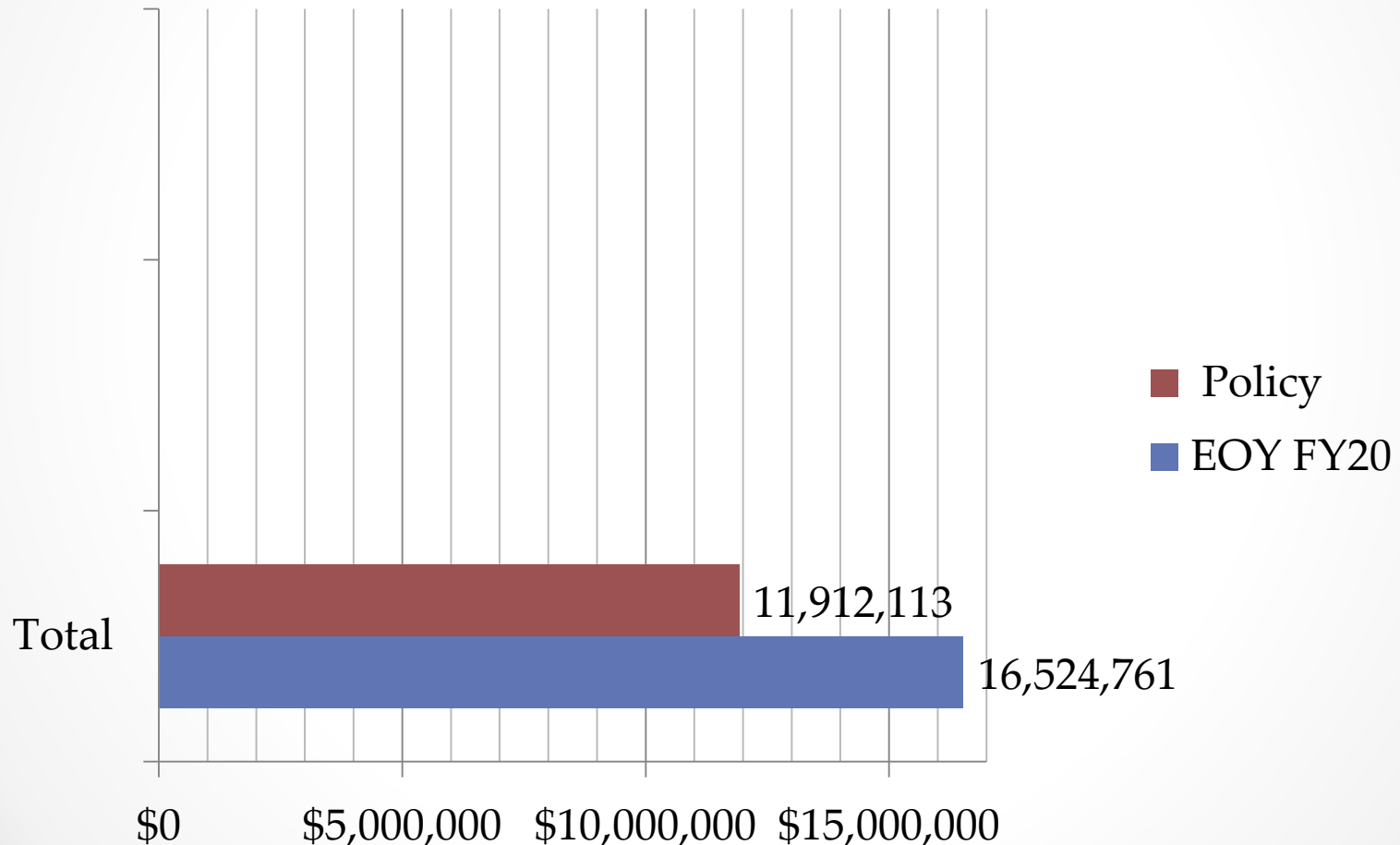
General Fund - Unassigned

EOY FY20 vs Current Policy Recommendation



Total All Funds

EOY FY20 vs Current Policy Recommendation



Revenue Analysis

Available Transfer From Utilities to GF

- No FY22 transfer from Electric or Sewer is proposed.
- Electric reserve is improving, but is still significantly under the recommended reserve requirement and is expected to remain so for the near future.
- Water/Sewer must continue to maintain cash reserve requirements in addition to a required revenue/expense ratio related to VRA financing on the sewer interceptor project. Also anticipated in early FY22 is debt service related to the Beaver Creek Reservoir spillway project. Water is projected to end both FY21 and FY22 with revenues > expenses.
- Transfer of \$1.445 million from Water to GF is proposed.
- Transfer of \$696,688 from Refuse to GF is proposed.

GF Budget Balances W/Transfers

- Total available General Fund revenue estimated at \$29,065,850 (taxes, fees, state/federal, etc.)
- Proposed budget balances with Telecom transfer of \$200,827 (\$99,624 included in School transfer to offset e-rate costs) + \$696,688 (transfer from Refuse) + \$1,445,000 (transfer from water), and \$2.9 million from fund balance for total of \$34,308,365.
- Proposed FY22 General Fund Budget is \$34,308,365.

Expense Analysis

What are the City's priorities?

- How should funds be allocated for education, public safety, economic/business development, capital, etc.?
- Any changes in services or personnel?
- Major projects?
- Financing obligations and debt service?
- Mandates?
- How to allocate available resources efficiently, fairly, and adequately?

FY22 Proposed Budget

Budget Details
What's Included
Taxes, Rates, Fees
General Fund
Enterprise Funds



FY22 Proposed Budget

- The proposed FY21 budget is \$99,197,457, an increase of \$3,246,678 over the approved FY21 original budget.
- Debt is well-managed. Existing debt service costs are covered either through project savings (AMI/Lighting and Building Energy Projects) or through fees and rates.
- Budget continues to maintain reserves in utilities and fund balance. Expenditure additions will necessitate additional revenue, reductions in proposed budget, or additional use of FB/reserves.

FY22 Overall Budget Drivers

- COLA and related benefit increases
- Health Insurance
- Outside Agencies
- Children's Services Act Funding
- Personnel additions

FY22 Proposed Budget

				Changes
	Original	Revised	Proposed	FY2021 to
Fund	FY2021	FY2021	FY2022	FY2022
General	32,658,074	35,764,188	34,308,365	1,650,291
Meals Tax	2,081,930	2,081,930	2,472,720	390,790
Capital Reserve	501,095	1,656,760	884,694	383,599
Refuse	4,328,401	4,328,401	2,764,837	(1,563,564)
Water	4,091,165	4,277,749	4,670,263	579,098
Sewer	5,241,248	5,247,413	5,369,637	128,389
Electric	21,150,059	21,307,059	20,883,990	(266,069)
Cafeteria	1,714,660	1,714,660	1,739,915	25,255
School Operating	21,866,116	23,979,802	23,703,197	1,837,081
Telecommunications	2,295,365	2,800,496	2,377,707	82,342
CDBG	22,666	42,991	22,132	(534)
Totals	95,950,779	103,201,449	99,197,457	3,246,678

FY22 Proposed Budget

General Fund

FY22 Proposed General Fund Budget is \$34,308,365 compared to the FY21 General Fund budget of \$32,658,075, and the FY21 revised budget of \$35,764,188.

The General Fund budget balances with a projected use of Refuse transfer of \$696,688; GF fund balance of \$2,900,000; \$200,827 from Telecom; and \$1,445,000 from Water. No proposed transfer from Electric or Sewer. Available GF fund balance to maintain 10% reserve is \$1,507,902; an additional \$1,392,098 is necessary. Anticipate a return to FB of approximately \$1 to \$1.5 M at EOY21.

FY22 Proposed Budget

Taxes, Rates, and Fees

- No recommended utility rate increases.
- Includes \$90,000 in additional real estate tax revenue resulting from reassessment with the real estate tax rate at the current \$1.0621/\$100, which requires a public hearing separate from the budget public hearing. A lowered tax rate of \$1.0502/\$100 will generate an estimated not more than 1% increase of real estate tax revenue (\$61,100) and does not require a hearing. To “levelize” FY22 real estate tax revenue with FY21, a real estate tax rate of \$1.03975 would have to be adopted, and the GF budget reduced by \$90,000, with FY22 real estate tax revenue to be shown as \$6,110,000. No other increases recommended.

FY22 Proposed Budget

School Funding, TROF Grant Repayment

- Recommended funding for Schools at **\$6,045,015** (local contribution) which includes an FY22 Telecom e-rate contribution/adjustment of \$99,624. Additionally, it is proposed that 2 transfers from the Cafeteria Fund to the School's Operating Fund of \$87,265 each (one for FY21; one for FY22) as a cost allocation payment for utilities & maintenance related to cafeteria operations occur, for net School funding of **\$6,219,545**.
- Includes year 4 (of 5) repayment of TROF grant in amount of **\$156,000**.

FY22 Proposed Budget

- Continues the use of cost allocation analysis to recover expenses incurred by General Fund operations in support of the operation of City utilities (Electric, Water, Sewer, Refuse, Telecom). FY22 GF budget includes \$1,270,065 in cost allocation revenue. This amount is included as part of utility operational costs in the respective funds.

FY22 Proposed Budget

Outside Agencies

- Recommended level funding for most outside agencies; 911 increases 3.9% from \$479,053 to \$497,503; 3.2% increase in Social Services funding from \$473,917 to \$489,257; reduction in funding for the Health Department from \$198,401 to \$165,654; EDC level at \$100,000; and level Library funding \$295,308. Continues small business/Uptown development at \$60,000 and \$35,000 for Mustangs management contract for 2022.
- Includes no new requests.

FY22 Proposed Budget

Personnel & Services

- 5% COLA for City employees & constitutionals; increase in health insurance costs (8.1%)
- Includes 3 personnel additions – one FTE in Community Development/Inspection; one in Engineering; and one in Safety/EMS. Community Development/Inspections converts PT office staff to FT, and adds PT inspection; Engineering is to add back the City/Project Engineer position eliminated several years ago as a budget reduction measure; and Safety/EMS is to split the Emergency Management position into a Safety Officer & EM Coordinator.
- In Telecom, budget includes adding (11 months) a 3 person fiber optic/customer service crew to handle backlogs and begin residential installations/service. This crew is also shared with Traffic Signals in the General Fund.

FY22 Proposed Budget

Capital (equipment, vehicles, projects, etc.)

- Funding of Capital Reserve (16 Fund) in the amount of **\$884,694** is proposed; of this amount, \$361,352 is required for debt service and the balance of **\$523,342** will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount funds only 29.7% of the capital (non-enterprise) fund requests of \$1,762,226 . Capital is funded through Meals Tax.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

- In the enterprise (utility) funds, \$2,222,090 is included in the respective fund budgets to address capital and equipment needs. Included in the enterprise funds are Refuse (09), Telecom* (11), Water (12), Sewer (13), and Electric (14).

** Through the City's annual audit process, Telecom is not identified as a separate enterprise fund although for internal City budgeting and tracking purposes it is considered and programmed as such. Telecom is a component of the General Fund.*

FY22 Proposed Budget

Refuse (09)

Collection fees continue to remain sufficient to continue recovering costs for collection, disposal, capital, routine landfill maintenance, and overhead. FY22 includes year 2 of 2 of funding (\$182.5K) to replace a rear loader collection vehicle and the vehicle used to serve roll-off containers. In FY22, the landfill generator will be moved from Refuse to Electric and will operate as a peak-shaving asset. Landfill gas will be flared. The Refuse budget is \$2,764,837 and includes a \$696,688 transfer to the General Fund.

FY22 Proposed Budget

Telecommunications (11)*

The projected FY22 Telecom budget is \$2,377,707 and includes transfer to General Fund of \$200,827 (includes \$99,624 for School e-rate costs), and \$48,213 under a cost allocation analysis. \$382,090 is included in capital for a continuation of system upgrades, expansion to additional customers, and wired/wireless-to-home project.

A business plan is being developed for the residential expansion project and the budget includes 11 months of a 3-person fiber optic installation/customer service crew to catch up on back log requests and to expand residential service.

**Telecom is listed as a separate (11) fund to simplify internal accounting but is actually a component of the General Fund*

FY22 Proposed Budget

Water (12)

- Water/Sewer construction crew continues to make infrastructure repairs at substantial savings over contract costs.
- Water capital (\$230K) includes road improvements at the reservoir, replacing 2 service trucks and year 2 of 2 of cost of an emergency generator.

FY22 Proposed Budget

Sewer (13)

- The Sewer budget includes capital funding (\$169,500) to replace the grit separator, a primary pump, repairs to the access road, and a shared cost with Public Works on a compact track loader.
- Annual debt service for the interceptor rehab project is included at \$634,336.

Water/Sewer Projects

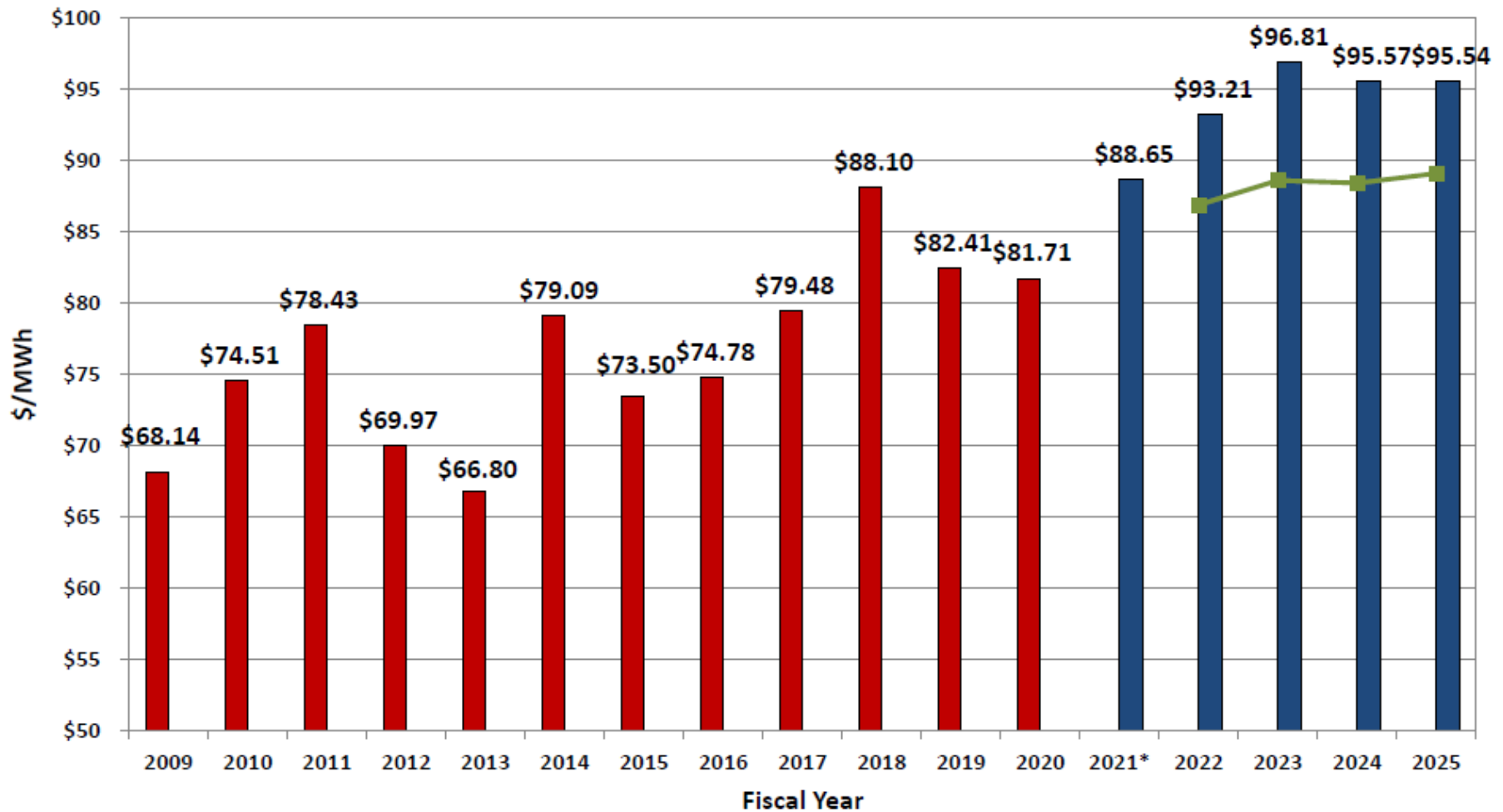
YEAR	STREET (s)	WATER	SEWER	STATUS		
2019-2020	VIRGINIA		500' (emergency)	COMPLETE		
2020-2021	CHEROKEE	3000'		COMPLETE		
2020-2021	CHEROKEE CT	500'		COMPLETE		
2021-2022	CHURCH ST EXT		900'(emergency)	IN PROGRESS		
2021-2022	AUBURN PL	1000'		ON HOLD, DUE TO 5 POINTS		
2021-2022	VENNA AVE/EDWARDS	3500'		GALVANIZED, IN BAD SHAPE		
2022-2023	FOREST ST PT1		1750'	INCLUDE LATERALS		
2022-2023	FOREST ST PT2		1750'	INCLUDE LATERALS		
2023-2024	BARTON		1000'			
2023-2024	ASKIN		2000'			
2024-2025	AMY		700'			
2024-2025	LAKEVIEW TR	1000'				
2024-2025	D ST	500'				
2025-2026	CORN TASSEL	3600'				

FY22 Proposed Budget

Electric (14)

- Electric budget capital (\$1,102,500) includes a system study to update maps, line loads, circuits; paint exterior of dam; tri-annual substation maintenance; station transformers; year 2 of 2 to replace digger derrick; year 1 of 2 to replace 55' bucket truck; replace dump bed truck.
- FY22 Electric budget is \$20,883,990 and the purchased power line is \$15,450,000, the largest single line item expense in the City's budget, and represents 73.9% of the Electric budget.

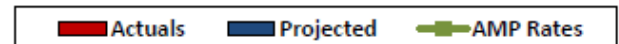
City of Martinsville Fiscal Year Rate Summary



*FY 2021 includes actuals for July-Nov 2020 and projected costs for Dec 2020-Jun 2021

Market & capacity prices could fluctuate causing a change in projected rate.

**AMP Rates includes Taxes, BRPA Fees, and GDS Fees for comparison purposes



Comments and Conclusion

The FY22 budget continues the practice of utilities balancing internally, utility transfers when available to balance in the GF, and use of FB as available, all while attempting to keep policy-directed minimum balances and reserves intact.

That process, however, is getting increasingly difficult while attempting to maintain reserves, without increasing revenue, reducing services, or combinations. In the FY22 General Fund budget, the gap to balance between budget and revenue is over \$5 million.

Comments and Conclusions

The budget as presented is proposed, and Council will have an opportunity to make changes as it deems appropriate.

Throughout the process, staff will provide support and additional information as needed, and ultimately will take the budget adopted by Council and implement that plan to the best of its ability.

It is important to note again that the proposed FY22 budget does not include potential funding related to the variety of federal stimulus programs that have either been approved, or are being contemplated. As that information becomes available, it may be necessary to consider budget amendments.

Comments and Conclusion

As always, our department staff, constitutional offices, and schools put significant effort into the budget process and much credit and thanks goes to them for their efforts. FY22 budget requests were found to be reasonable and needed, and Council will have an opportunity through the upcoming work sessions to ask questions.

As always a special thanks goes to Linda Conover and Mandy McGhee of the Finance Department for their input throughout this process.

#

Next Steps

- Review the budget details, request additional information, ask questions, and talk with citizens.
- Three work sessions have been scheduled – May 12 for City departments, constitutionals, & capital; May 13 for Schools and outside agencies; and May 18 for follow up, and additional discussion as may be needed.
- Conduct a public hearing at Council's May 25 meeting on the proposed real estate tax rate.
- Consider setting a public hearing on the FY22 Budget for Council's May 25, 2021 meeting.